

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
ZONE F - MORONGO VALLEY**

REPORT ON AUDIT

JUNE 30, 2005

**County of San Bernardino Special Districts
County Service Area No. 70
Zone F - Morongo Valley
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County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 70 - Zone F - Morongo Valley

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 70 - Zone F - Morongo Valley (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the State Controller's Minimum Audit Requirement for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the County of San Bernardino Special District County Service Area No. 70 - Zone F - Morongo Valley, as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and the state regulations governing special districts.

The County of San Bernardino Special District County Service Area No. 70 - Zone F - Morongo Valley has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Rogers, Anderson, Malody & Scott, LLP

September 16, 2005

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County of San Bernardino Special Districts
County Service Area No. 70 - Zone F - Morongo Valley
Statement of Net Assets
June 30, 2005

ASSETS

Current Assets:

Cash and cash equivalents	\$ 80,428
Accounts receivable, net	10,846
Interest receivable	479
Taxes receivable	669
Total Current Assets	<u>92,422</u>

Noncurrent Assets:

Capital Assets:

Land	4,311
Improvements to land	322,778
Structures and improvements	151,790
Construction in progress	1,364
Accumulated depreciation	<u>(118,947)</u>
Total Noncurrent Assets	<u>361,296</u>

Total Assets	<u>453,718</u>
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LIABILITIES

Current Liabilities:

Accrued interest payable	<u>933</u>
Total Current Liabilities	<u>933</u>

Noncurrent Liabilities:

Loan payable	<u>50,582</u>
Total Noncurrent Liabilities	<u>50,582</u>

Total Liabilities	<u>51,515</u>
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NET ASSETS

Invested in capital assets	361,296
Unrestricted	<u>40,907</u>
Total Net Assets	<u>\$ 402,203</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone F - Morongo Valley
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2005

OPERATING REVENUES

Water sales	\$ 87,283
Total Operating Revenues	<u>87,283</u>

OPERATING EXPENSES

Professional services	11,145
Salaries and benefits	42,884
Services and supplies	18,467
Utilities	13,115
Depreciation	10,546
Other	1,411
Total Operating Expenses	<u>97,568</u>

Operating (Loss)	<u>(10,285)</u>
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NONOPERATING REVENUES (EXPENSES)

Investment earnings	1,580
Interest expense	(1,164)
Property taxes	8,280
Other taxes	435
Special assessments	4,696
State assistance	149
Penalties	3,263
Other	255
Total Nonoperating Revenues	<u>17,494</u>

Change in Net Assets	7,209
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Net Assets - beginning	<u>394,994</u>
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Net Assets - ending	<u><u>\$ 402,203</u></u>
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The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone F - Morongo Valley
Statement of Cash Flows
For the Year Ended June 30, 2005**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 87,503
Payments to suppliers	(44,138)
Payments to employees	(42,884)
Net Cash Provided by Operating Activities	<u>481</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Property taxes	7,611
Special assessments	4,696
Other taxes	435
Penalties	3,263
State assistance	149
Other nonoperating revenues	255
Net Cash Provided By Noncapital Financing Activities	<u>16,409</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal paid on debt obligations	(758)
Interest paid on debt obligations	(1,312)
Net Cash (Used For) Capital and Related Financing Activities	<u>(2,070)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment earnings	<u>1,339</u>
Net Cash Provided By Investing Activities	<u>1,339</u>

Net Increase in Cash and Cash Equivalents 16,159

Cash and Cash Equivalents - beginning of the year 64,269

Cash and Cash Equivalents - end of the year \$ 80,428

Reconciliation of operating (loss) to net cash provided by operating activities:

Operating (loss)	\$ (10,285)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:	
Depreciation expense	10,546
Change in assets and liabilities:	
Decrease in accounts receivable, net	<u>220</u>

Net Cash Provided by Operating Activities \$ 481

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone F - Morongo Valley
Notes to Financial Statements
June 30, 2005**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 70, Zone F was established by an act of the Board of Supervisors of the County of San Bernardino (the County) to provide water service to 78 properties, maintenance to 3 wells, 1 booster station and a reservoir that stores 260,000 gallons of water for the community of Morongo Valley.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 Zone F of the County of San Bernardino and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2005.

Measurement focus, basis of accounting, and financial statement presentation

The CSA's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone F - Morongo Valley
Notes to Financial Statements
June 30, 2005**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (e.g., the current portion of interfund loans) or "advances to/from other funds" (e.g., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All accounts receivable are shown net of an allowance for uncollectibles when applicable. The accounts receivable balance at June 30, 2005 is net of an allowance for doubtful accounts of \$5,874.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital assets

Capital assets, which include property, plant, and equipment are reported in the financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone F - Morongo Valley
Notes to Financial Statements
June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Long-term obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

Although the District prepares and adopts an annual budget, budgetary information is not presented because the District is not legally required to adopt a budget.

NOTE 2: CASH AND DEPOSITS

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2005.

See the County of San Bernardino's Comprehensive Annual Financial Report (CAFR) for details of their investment policy and disclosures related to investment credit risk, concentration of credit risk, interest rate risk and custodial credit risk, as required by GASB Statement No. 40.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone F - Morongo Valley
Notes to Financial Statements
June 30, 2005

NOTE 3: ACCOUNTS RECEIVABLE

At June 30, 2005, the accounts receivable balance was composed of the following:

	<u>Ambulance</u>
Accounts receivable	\$ 16,720
Less: allowance for uncollectibles	<u>(5,874)</u>
Total accounts receivable, net	<u><u>\$ 10,846</u></u>

NOTE 4: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 4,311	\$ -	\$ -	\$ 4,311
Construction in progress	1,364	-	-	1,364
Total capital assets, not being depreciated	<u>5,675</u>	<u>-</u>	<u>-</u>	<u>5,675</u>
Capital assets, being depreciated:				
Improvements to land	322,778	-	-	322,778
Structures and improvements	151,790	-	-	151,790
Total capital assets, being depreciated	<u>474,568</u>	<u>-</u>	<u>-</u>	<u>474,568</u>
Less accumulated depreciation for:				
Improvements to land	(94,487)	(7,173)	-	(101,660)
Structures and improvements	(13,914)	(3,373)	-	(17,287)
Total accumulated depreciation	<u>(108,401)</u>	<u>(10,546)</u>	<u>-</u>	<u>(118,947)</u>
Total capital assets, being depreciated, net	<u>366,167</u>	<u>(10,546)</u>	<u>-</u>	<u>355,621</u>
Total capital assets, net	<u><u>\$ 371,842</u></u>	<u><u>\$ (10,546)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 361,296</u></u>

County of San Bernardino Special Districts
County Service Area No. 70 - Zone F - Morongo Valley
Notes to Financial Statements
June 30, 2005

NOTE 5: NOTES PAYABLE

Two notes originally issued at \$40,000 and \$10,000 were assumed by the CSA in 1977 from the Hi-Desert County Water District for financing the construction of a utility plant. The notes were issued at 4.5% interest per annum with principal and interest installments due annually. Details of the notes are shown below:

<u>Date of Note</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Annual Payment</u>
3/13/64	4.5%	40 years	\$ 2,174
5/06/64	4.5%	40 years	549
			<u>\$ 2,723</u>
Totals			<u>\$ 2,723</u>

The notes were paid off during the current fiscal year.

Change in long-term liabilities

Long-term liability activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes payable:					
#91-04	\$ 657	\$ -	\$ (657)	\$ -	\$ -
#91-05	101	-	(101)	-	-
Total notes payable	758	-	(758)	-	-
Loan Payable	50,582	-	-	50,582	-
Total Long-term Liabilities	<u>\$ 51,340</u>	<u>\$ -</u>	<u>\$ (758)</u>	<u>\$ 50,582</u>	<u>\$ -</u>

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone F - Morongo Valley
Notes to Financial Statements
June 30, 2005**

NOTE 6: LOAN PAYABLE

The CSA received loan proceeds from the County's Revolving Fund established under Government Code Section 25210.9c. All loans to date have five-year terms as established by the Board of Supervisors. The loan balance reported on the Statement of Net Assets at June 30, 2005 is \$50,582.

Future debt service payments for the County's revolving loan is not disclosed because there are no fixed payment dates.

NOTE 7: RETIREMENT PLAN

Plan description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the AQMD), were later included, along with the County of San Bernardino (the County), and are collectively referred to as the "Participating Members." The Plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W. Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2005.

Funding policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.37% - 12.28% for general members and 10.23% - 14.24% for safety members, of their annual covered salary of which the County pays approximately 7%. County of San Bernardino employer contribution rates are as follows: County General 8.44%, County Safety 18.01%. All employers combined are required to contribute 14.01% of the current year covered payroll. For 2005, the County's annual pension cost of \$141,450,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone F - Morongo Valley
Notes to Financial Statements
June 30, 2005

NOTE 7: RETIREMENT PLAN (continued)

The County's annual pension cost and prepaid asset, computed in accordance with *GASB 27, Accounting for Pensions by State and Local Governmental Employers*, for the year ended June 30, 2005, were as follows (in thousands):

Annual Required Contribution (County fiscal year basis)	\$ 141,450
Interest on Pension Assets	(34,779)
Adjustment to the Annual Required Contribution	38,135
Annual Pension Cost	<u>144,806</u>
Annual Contributions Made	<u>141,450</u>
Increase/(Decrease) in Pension Assets	(3,356)
Pension Assets, Beginning of Year (As Restated)	848,238
Pension Assets, End of Year	<u><u>\$ 844,882</u></u>

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

Year Ended June 30,	Annual Contributions Made (in thousands)		Percentage Contributed
	SBCERA	County	
2003	\$ 68,361	\$ 59,673	100%
2004	\$ 652,325	\$ 540,106	100%
2005	\$ 161,906	\$ 141,450	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the Bonds) in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2005 is \$439,539,000.

On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in respective aggregate principal amounts of \$189,070,000, \$149,825,000, and \$125,000,000. The Bonds were issued to finance the County's share of the unfunded accrued actuarial liability of the SBCERA. The current amount outstanding at June 30, 2005 is \$463,895,000.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone F - Morongo Valley
Notes to Financial Statements
June 30, 2005

NOTE 8: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 9: RISK MANAGEMENT

The CSA is insured through the County's self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to \$1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$25 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority (EIA) Liability Program II. Workers' compensation claims are self-insured up to \$2 million per occurrence, and covered by CSAC EIA for up to \$10 million for employer's liability, and up to \$50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25,000 deductible, and insured with CSAC EIA Property Program.

The County supplements its self-insurance for medical malpractice claims with CSAC EIA, which provides annual coverage on a claim made form basis with a SIR of \$1 million for each claim. Maximum coverage under the policy is \$11.5 million per claim with an additional \$10 million in limits provided by the CSAC EIA General Liability II Program.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a \$100,000 deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance, and employee dental insurance, which are accounted for in the General Fund. The IBNR and IBNS liabilities stated on the Risk Management Fund's balance sheet are based upon the results of actuarial studies, and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 3.50%. It is the County's practice to obtain actuarial studies on an annual basis.

The County has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation, and medical malpractice programs. The County's investment in the agreement totaled \$47.3 million at June 30, 2005.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone F - Morongo Valley
Notes to Financial Statements
June 30, 2005**

NOTE 9: RISK MANAGEMENT (continued)

The total claims liability of \$115.7 million reported at June 30, 2005 is based on the requirements of *GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2004 and 2005 were:

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	End of Fiscal Year Liability (in thousands)
2003 - 2004	\$ 93,802	\$ 45,128	\$ (37,221)	\$ 101,709
2004 - 2005	\$ 101,709	\$ 44,309	\$ (30,304)	\$ 115,714

NOTE 10: CONTINGENCIES

As of June 30, 2005, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.